CALL-NET ENTERPRISES INC.

CallNet

1997

ANNUAL REPORT

HIGHLIGHTS

Annual Revenues *($ millions)*

1987
- Call-Net provides enhanced services in Ontario & Quebec
- Call-Net develops first detailed billing programme

1988
- Federal Cabinet prevents telcos from closing Call-Net

1989
- Call-Net initiates service in B.C.

1990
- CRTC permits simple resale of private lines

1991
- Call-Net under new executive leadership
- Call-Net installs first Northern Telecom DMS-250 switch

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IBC Shareholder Information

1992

- CRTC landmark decision initiates full competition in long distance
- Call-Net founds Microcell
- Call-Net makes $30 million initial public share offering

1993

- Call-Net acquires Canadian rights to Sprint brand, technology
- Operating company renamed Sprint Canada
- Sprint Canada launches service in Alberta
- Call-Net acquires Cable & Wireless and Tell Canada
- Two Call-Net equity offerings raise $120 million

1994

- Availability of equal access to public telephone system permitting full competition
- Sprint Canada launches residential service
- Sprint Canada enters Atlantic Canada through Airways Broadcasting acquisition
- Call-Net acquires Integrated Network Services (Insinc)
- Call-Net raises US $96.5 million net proceeds in Senior Discount Notes

1995

- Sprint Canada completes fibre build in Central Canada
- Sprint Canada acquires STN assets
- Sprint Canada enters Manitoba
- Call-Net raises $108 million in equity

1996

- Sprint Canada augments network with fibre swaps
- Call-Net participates in CRTC local competition proceedings
- Sprint Canada enters Saskatchewan to complete national coverage
- Sprint Canada becomes #1 long distance alternative to telcos
- Microcell launches Canada's first PCS service
- Call-Net reports two quarters of positive net income

1997

- Sprint Canada launches THE MOST™ by the minute service a THE MOST™ for Busine by the minute service
- Call-Net raises $333 million net proceeds in Senior Discount Notes and Senior Notes
- Sprint Canada launches THE MOST™ online
- Sprint Canada gains its 1 millionth residential long distance customer
- Call-Net generates positive free cash flow

Corporate Profile

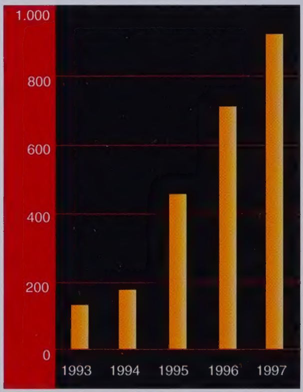
Sprint Canada

MICROCELL Telecom

Financial Highlights

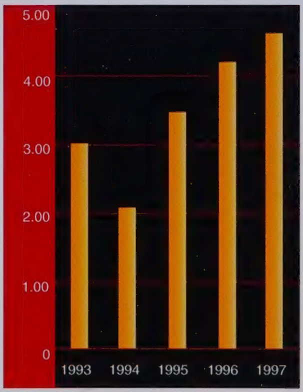
($ millions, except as noted)	1997	1996	1995
Revenue	920.9	712.6	457.5
Gross profit	415.2	267.9	155.5
Gross margin	45.1%	37.6%	34.0%
EBITDA	90.5	43.1	(15.7)
Net income/(loss)	16.3	(7.1)	(64.7)
Cash flow from operations	99.4	51.6	(13.4)
Cash and short-term investments	558.4	170.1	179.6
Capital assets	242.6	169.7	132.0
Long-term debt	564.9	186.0	164.6
Shareholders' equity	290.6	253.0	249.5

Revenue *($ millions)*



During the past five years, revenue from core services (switched long distance and business data services) has multiplied nearly seven-fold, despite a highly competitive marketplace. In 1997, revenue increased 29% to $921 million.

Revenue / Capital assets



Although revenue from core services rose by 29%, net capital assets used to produce that revenue (core capital assets) increased by only 17% after excluding the costs of developing new services and acquiring a head office site. Every $100 of core capital assets supported revenue of $460, versus $420 in 1996.

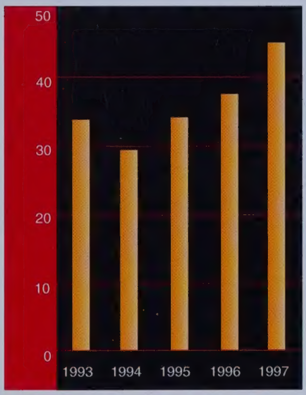
Founded in 1986, Call-Net Enterprises Inc. is a Canadian company. Its shares trade on the Toronto and Montreal stock exchanges and the Nasdaq in the United States.

Call-Net's wholly owned subsidiary, Sprint Canada Inc., is one of Canada's largest telecommunications companies offering long distance voice, data and network management services to consumers, businesses and governments across Canada.

Sprint Canada offers Internet access services to businesses and consumers and plans to offer local service and mobile wireless service in the future.

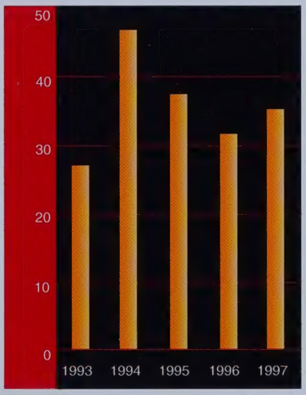
Call-Net owns 11 percent of Microcell Telecommunications Inc., a digital wireless PCS telephone service carrier operating nationally under the Fido™ brand name.

Gross margin *(% of revenue)*



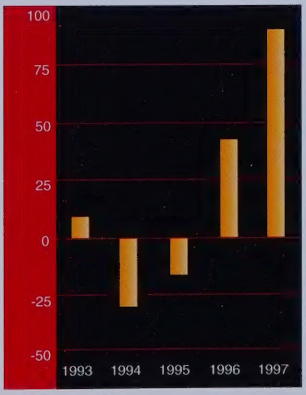
With carrier charges rising at a much slower pace than revenue, gross profit increased by 55% to $415 million. As a percentage of revenue, gross margin grew for the third consecutive year to 45%.

Operating costs *(% of revenue)*



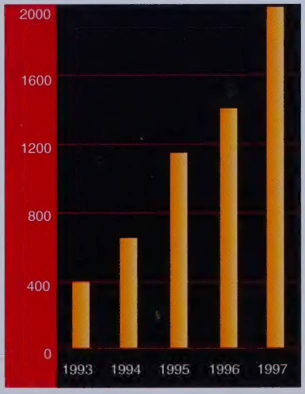
Operating costs were 35% of revenue, compared with 32% in 1996. The 1997 costs included investments in the development and launch of THE MOST™ online and preparation for entry into local services. Excluding these costs, as well as royalties payable for the first time in 1997, operating costs for core services were 31% of revenue.

EBITDA *($ millions)*



EBITDA more than doubled to $90 million in 1997. When the costs of developing new services and payment of royalties are excluded, EBITDA from core services was $126 million, or 14% of revenue, compared with $43 million or 6% of revenue, in 1996. Net income of $16 million reversed four consecutive years of net losses.

Number of employees



Staff expanded to almost 2,000 employees by the end of 1997, in part to support our new initiatives in local and online services. Despite this growth, annualized revenue per employee remained strong at more than $506,000.

Chairman's Message

Call-Net's recent financial performance confirms that Sprint Canada is firmly established on the Canadian telecommunications scene. It is a profitable long distance enterprise, delivering nine consecutive quarters of positive EBITDA and more than $16 million of net income in 1997. In fact, 1997 was very much a milestone year, producing free cash flow from the long distance business for the first time.

Sprint Canada now has annualized revenue exceeding $1 billion, making it the third largest long distance company in Canada after Bell Canada and BCTel – and one of the largest telephone companies overall, even before we start to receive revenue from local services and other telecom sectors. All of our revenue growth in the past two years has been internally generated, rather than coming from acquisitions.

Sprint Canada is a relatively large corporation in Canada. It is national in scope, employing more than 2,000 Canadians in 18 locations from coast to coast. It has 1.2 million residential and business customers who can rely every hour of every day on Sprint Canada's national telephone network and competitive choice of products for their long distance and data services. Our long distance organization has the experience, skill sets and technological reliability to deliver the complex telecom solutions required by business firms and governments as well as the savings and simplicity expected by residential customers. In 1998, we will make substantial investments to improve our data services for business.

From the investor's perspective, Call-Net is a major investment opportunity. We have book equity of $291 million and market capitalization in excess of $1 billion. Both Canadian and American investors responded enthusiastically to our 1997 offerings of high-yield notes. The issues were oversubscribed and the Company raised $333 million in net proceeds. Our balance sheet is sound and carried at year end approximately $558 million in cash to fund our expansion strategy.

Sprint Canada has the critical mass to move confidently beyond its core services (long distance voice and fax as well as business data services) into new telecom areas by leveraging the existing customer base, network assets, distribution channels, billing systems and customer service infrastructure.

In 1997, Sprint Canada took its first step beyond core services by launching THE MOST™ online, a product that delivers Canadians ease of access to the Internet. The demand far exceeded expectations and this dial-up product should be an important revenue contributor in 1998.

Sprint Canada's next step beyond core services will be a large one into local services. A year ago, we had hoped to enter the local market by mid-1998. The CRTC announced the framework for local competition in May 1997, but many elements of how competition will unfold were left unresolved. The CRTC has yet to decide, for example, on the price the telephone companies can charge new competitors for using the local loop in the public telephone system. With the assistance of the CRTC, the industry is resolving technical issues and standards, including how consumers and businesses will retain their telephone numbers when they switch local carriers, as well as systems and procedures to ensure the efficient transfer of customers between competing local carriers.

Sprint Canada will enter the local market about six months after local number portability and other standards are established. Our priority as always is to ensure service reliability rather than to rush to market.

Once local services are underway, Sprint Canada plans to add mobile services in late 1999 or 2000.

We also see opportunities to reduce our international costs once Teleglobe's monopoly on Canada's international telecommunications facilities disappears by October 1998.

Growth from long distance, data, online, local and mobile services will expand our total addressable market to more than $25 billion by 2000. That compares with an addressable market of $8.6 billion for long distance and data services in 1997. As recently as 1992, our addressable market was as small as $800 million when we provided long distance services to small businesses in British Columbia, Ontario and Quebec.

Our goal is to be a leading competitor within five years of entry into a telecom sector. That has been achieved in switched long distance, where Sprint Canada has a 13 percent market share, although we have a long way to go in the fast-expanding market for high-speed digital business data services. Sprint Canada became an Internet service provider in September 1997 and already ranks among the top ISPs in Canada.

We expect to be a $2 billion revenue company by late 2000, depending on when Sprint Canada enters the local market. More than 60 percent of future growth should come from new market sectors. At the same time, our number of employees will increase to approximately 4,000 across Canada.

To accommodate our projected growth in employees, and faced with a long-range shortage of large contiguous office space in Toronto, we have decided to consolidate Sprint Canada's Toronto operations at a new head office complex. In late 1997, we acquired a 50-acre site in Toronto and plan to develop approximately one million square feet of space over the next five to 10 years, with the first building scheduled for occupancy in late 1999. In time, the site will house offices, a network control centre, training facilities, a call centre and other special facilities. Creating our own complex will increase employee efficiency and productivity, avoid escalating rental rates that drain earnings, and enhance long-term shareholder value.

Needless to say, we are very anxious to get on with diversifying our operations into new telecommunications sectors. We have spent a lot of time defining the future. Our business plans for new initiatives are virtually complete. The money is in the bank with strong cash flow from the long distance business, and our resources are growing in anticipation of multi-sector expansion.

I thank all employees, customers and investors for their support. I want to express special thanks to Herman Vanderlaag, a founding director of Call-Net who stepped down after 10 years of invaluable service. We recently welcomed to the board Peter Tanaka, a partner in Strathshore Financial Inc.

Juri Koor

Juri Koor, Chairman

President's Report

Sprint Canada continues to solidify its position as Canada's number one long distance alternative to the Stentor companies. At the same time, we are busy developing business plans to earn a number one or number two market position in other telecommunications sectors. Our long-term goal is to offer Canadian businesses and consumers a broad range of services on a "one-stop-shop" basis.

We have tremendous strength in the residential market, where Canadians have responded enthusiastically to our consistent offer of savings and simplicity in long distance. We also have tremendous strength in the small and medium sized business markets, where our toll free service and other products have helped these firms to use telecommunications as both a management tool and growth engine. We are also making strong progress in penetrating the large corporate and government market, where the requirements are more complex and the concerns about network quality and carrier viability more acute.

Different market segments have distinctly different telecommunications needs. We have responded by reorganizing Sprint Canada into two customer-oriented groups – Enterprise to focus on medium to large businesses as well as governments, and Residential/SOHO to focus on residential and small office/home office customers.

Our emphasis on customer service is paying off handsomely. With total revenue of $921 million, Sprint Canada concluded 1997 with a 13 percent share of the switched long distance (voice and fax) market and reached an important milestone – our one millionth residential customer. We see ample room for further growth, especially following the very successful introduction of THE MOST™ by the minute savings plan in February 1997, which guarantees a 15-cent per minute rate on calls made to anywhere in Canada at anytime and guaranteed competitive rates to the United States and overseas. Since year end, we have enhanced the plan by breaking with other industry traditions. After the first minute, customers are now billed by the second with no rounding up to the next minute. Calls of less than 10 seconds are free.

Later in 1997, we offered Canadians a product that makes it easy to get on the Internet – and they responded with enthusiasm to THE MOST™ online. Our customers now get long distance and Internet access bundled on one bill. We are working on other Internet products for consumers and business.

On the business side, we are making impressive gains in winning large accounts – our second chartered bank, our second national department store chain, a national railway, along with a growing list of major corporations, investment firms, insurance companies and stock exchanges. These organizations invest a great deal of time and money in conducting due diligence on telecommunications providers before switching their account and we very much appreciate the vote of confidence they have placed in Sprint Canada.

Our business products, ranging from high speed private lines to global frame relay and enhanced toll free service, match anything offered by any competitor. Our competitive edge, however, is embedded in our attitude and enthusiasm for delivering reliable and quality service that makes a difference to the customer's business. Many of our large customers consider Sprint Canada staff part of their telecommunications team. We are glad they do because we think that way too.

While our growth in core services (long distance voice and fax, and business data services) is far from over, we are getting ready to provide local services. This market will exceed $10 billion by 2000. We are determining our switching platform and have begun the process of systems integration for billing, customer care and provisioning. We have already hired more than 100 people to lead our entry into local services. We will follow a hybrid network strategy, using our own switching infrastructure and local transmission capacity provided by others. We intend to roll out product on a city-by-city basis, growing in step with customer demand.

With our emphasis on customer service, we are paying special attention to the recruitment and training of staff. Our employment will double to about 4,000 over the next three or four years as we continue to grow core services and expand into other telecom sectors. One of our corporate goals is to be #1 in customer satisfaction – a status we have already achieved for our long distance customers, according to independent research. To maintain this position, we will ensure that present and future employees have the skill sets and enthusiasm that have proven a potent combination in attracting and retaining customers during the past three years of extraordinary growth.

Phil Bates, President and Chief Operating Officer

Statement of Corporate Governance Practices

The Company's corporate governance practices are generally consistent with the guidelines of the Toronto and Montreal stock exchanges and the expectations of investors.

The board oversees the efficacy of senior management, ensuring that effective policies and procedures are in place to satisfy its fiduciary duties.

Call-Net does not have a controlling shareholder and the board and its committees are made up exclusively of independent directors, except for the chairman and chief executive officer, who does not sit on any committee. The qualifications and affiliations of each director, as well as the mandate of each committee, are described below.

An annual strategic planning process is in place and the directors are kept apprised of risks to the business and management's strategic response.

A comprehensive compensation-for-performance policy aligns the interests of management with those of the shareholders.

The board is pro-active and meets often, specifically, 15 times in 1997.

Under the leadership of the Corporate Governance and Nominating Committee, the board continues to improve and formalize corporate governance practices.

In 1997, the board addressed improvements in board/management communication, an improved board and director evaluation process that will be implemented in 1998, a process for board member succession that focuses on skills and expertise the Company will need as it diversifies into multiple telecommunications sectors, and CEO succession planning.

Board Profiles

Committees

Audit: Reviews financial controls and risk management, reporting procedures, internal controls and the performance of the external auditors. Evaluates management's financial performance.

Compensation and Human Resources: Reviews executive and director compensation, including incentive-based compensation programs for management. Establishes measurable performance criteria. Responsible for the search for and appointment of senior management.

Corporate Governance and Nominating: Establishes formal corporate governance guidelines and practices. Reviews credentials of board members and nominees. Recommends candidates for nomination. Sets guidelines for the education and orientation of new board members.

Enterprise

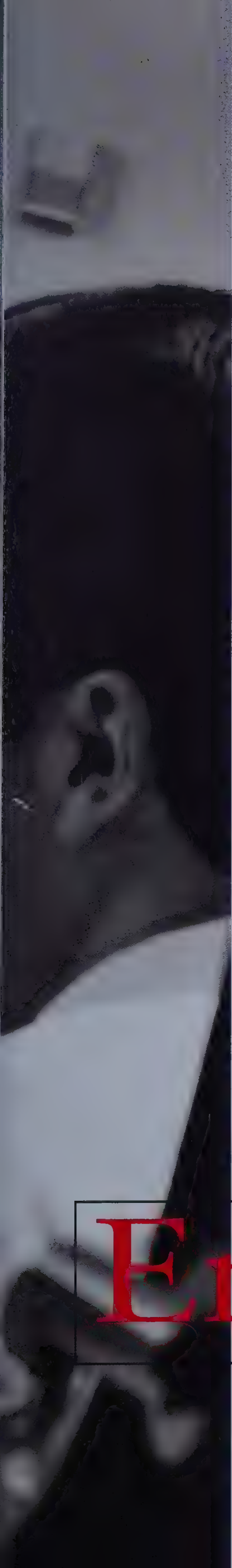
Sprint Canada offers a broad and proven spectrum of long distance voice and data services to medium and large enterprises seeking cost-effective solutions to complex telecommunications requirements. Our reputation for reliability, quality, innovation and proactive customer service continues to win new corporate and government business.

We win with our reputation, recognizing that large enterprises will only consider changing telecom carriers if they are confident of receiving uninterrupted service and dedicated expert attention of the highest order. Independent customer satisfaction research in 1997 found that Sprint Canada's long distance voice service scores substantially better than other long distance companies, and at least as well as the entrenched telephone companies, in reliability, quality and customer service. Our advanced data warehouse Bill Analysis Software, which is especially valuable to large telecom users, scores far ahead of all competitors.

Our national long distance network is able to absorb without disruption large new customers who may individually require 10 million minutes or more of traffic per month. Our network handled 4.1 billion billed minutes of voice traffic in 1997, a 45 percent increase in one year.

The demand for Sprint Canada's outbound long distance voice services continues to show steady double-digit growth, while our inbound toll free service, introduced in 1995, is expanding at a very fast pace and has forced competitors to drastically lower prices and improve service. Our toll free 800/888 services contain intelligent network features and interactive voice response (IVR) to improve the cost efficiency of large corporate call centres.

Many new customers have opted for our THE MOST™ for business by the minute savings plan. It offers a flat rate of 15 cents per minute for calls to or from anywhere in Canada at any time on any day and, depending on monthly volumes, 18 cents to 22 cents per minute for calls from Canada to anywhere in the United States at any time on any day. Low by-the-minute rates apply to overseas calls. The lack of time and geographic restrictions has great appeal to companies seeking to stabilize their telecommunications costs during peak business hours at the same low rates they receive in non-peak hours.



Since year end, by-the-second billing has been introduced for all customers. By-the-second billing applies after the first minute, though for some business customers it takes effect after 30 seconds.

Our data services continue to gain acceptance among medium and large organizations. We offer enhanced global frame relay, high-speed private line, router management, and high-speed Internet backbone access.

Our corporate objective is to provide large organizations with one-stop shopping for their data telecommunications requirements. For example, we work with five major telecommunications hardware vendors in providing comprehensive router management service.

We are in the forefront of the trend by corporations and governments to use Internet and intranet services to improve the capacity and cost-effectiveness of information exchange within their organizations as well as with customers and suppliers. We provide, for example, high-speed bandwidth to the Internet backbone. At 45 megabits, our new service is 28 times faster than the T1 high-speed benchmark and competes with the best capacity offered by the cable companies or telcos. Our improved services enable large organizations to provide their employees with cost-efficient and fast e-mail, intranet and Internet services. We also provide customers with fast online access to their data bases for analytical purposes.

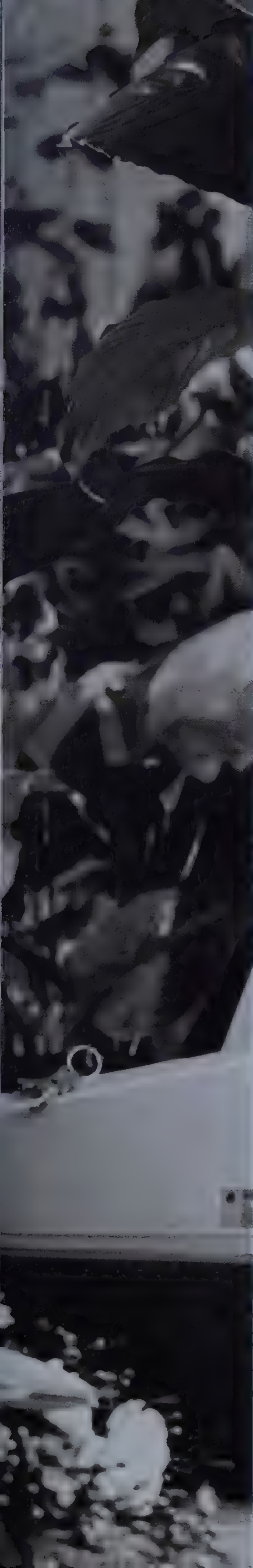
Bill Analysis Software is a product pioneered in Canada by Sprint Canada. It enables customers to analyze, configure and cost their long distance and toll free services to maximize productivity, leverage costs and improve their customer service. Several clients use our Bill Analysis Software for online analytical processing (OLAP) because of its demonstrable efficiency in mining data from the call record data warehouse. This service has particular appeal to large retailers, financial services, investment firms, and other organizations that need to deal with historical data to find ways of improving their business management in the future.

Enterprise

Residential

Small Office/

Home Office



Sprint Canada is the number one alternative long distance brand among residential and small business customers. In May 1997, we achieved a milestone when our one millionth customer signed on to THE MOST™ savings plan. By year end, we had grown further to 1.13 million residential and small business customers.

A large part of our success in attracting and retaining residential customers is attributable to the consistency of the savings and simplicity we offer in long distance. In February 1997 we revolutionized the industry by introducing a simple flat-rate calling plan. THE MOST™ by the minute savings plan offers a flat rate of 15 cents per minute for calls to anywhere in Canada at any time on any day, and 22 cents per minute for calls from Canada to anywhere in the United States at any time on any day. Low by the minute rates apply to overseas calls.

The introduction of our flat-rate plan prompted competitors to offer "look-alike" plans, although they typically restricted consumers to making long distance calls on certain days, at certain times of the day, or within certain areas. Our plan has no restrictions and enables Canadians for the first time to know exactly how much it will cost to make a long distance call before they make it.

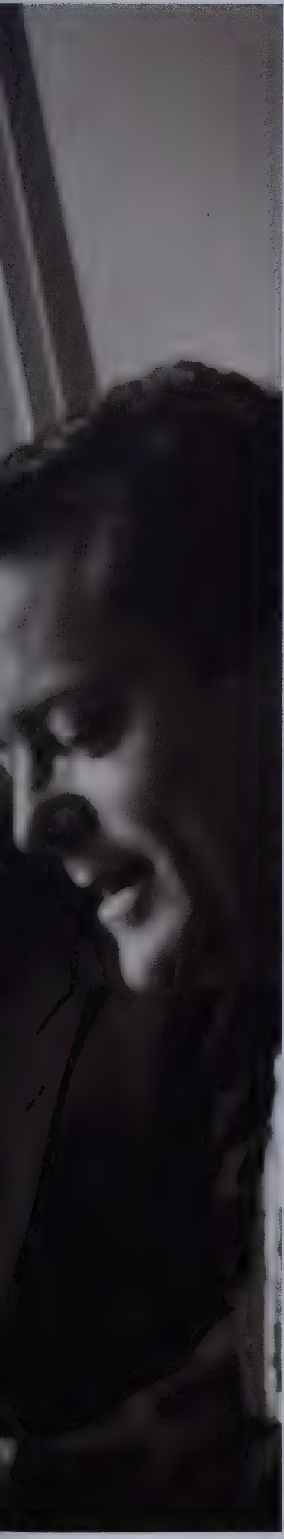
Subsequent to year end, we substantially enhanced THE MOST™ by the minute savings plan. First, customers are now billed by the second after the first minute, with no rounding up to the next minute, as is the case with other long distance companies. When a Sprint Canada customer's long distance call lasts three minutes and five seconds, for example, the customer is billed for exactly that amount. Other long distance companies round such residential calls up to four minutes. Second, we offer free short calls to any destination. When a Sprint Canada customer calls long distance and reaches an answering machine or a wrong number and hangs up within 10 seconds, that call is free. Third, we have also reduced overseas rates, including substantial savings to certain popular calling destinations, such as the United Kingdom, Italy, Taiwan, India and the Philippines.

Our small office/home office customers also enjoy the full benefits of Sprint Canada's THE MOST™ by the minute savings plan even during higher-rate business hours. Our flat rates also apply to long distance faxing.

In September 1997 we introduced our first dial-up Internet access product for consumers and small office/home office customers. THE MOST™ online offers ease of use in addition to our trademark benefits of savings and simplicity. The response to our product was immediate and enthusiastic.

Our Internet product is also attractive to small businesses and home offices in enabling them to communicate with their clients and suppliers via e-mail.

Our Management Team



... at Call-Net

As the publicly traded company and sole owner of Sprint Canada, Call-Net Enterprises is responsible for strategic planning, regulatory and legal matters, finance and investor relations, real estate, facilities, corporate security and human resources.

Corporate Services

Heading our Corporate Services is Robert Boron, senior vice president, chief counsel and corporate secretary. Mr. Boron joined Call-Net in November 1990. His senior team consists of Mark Hemingway (legal affairs), Jean Brazeau (regulatory affairs), Marion Code (human resources) and Irene Panageas (real estate and facilities). Particularly important are issues related to regulation under the Telecommunications Act; recruitment and training to develop Sprint Canada's human resources as a force of growth; managing Sprint Canada's leased and owned premises across Canada, as well as overseeing the development of a new head office complex in Toronto; and the many complex legal issues related to a high growth, high tech operation.

Corporate Development and Finance

Leading Call-Net's corporate development and finance team is Jim Hardy, vice president and chief financial officer, who joined Call-Net in April 1992. Mr. Hardy's financial executives – notably Brock Robertson (treasury) and Doug Beatty (finance) – have strong industry experience as well as professional expertise from other businesses. In addition to investor relations and traditional financial management responsibilities, the team is focused on strategic planning to anticipate and manage growth, analyzing and measuring operational and financial performance, and benchmarking performance against competitors.

... at Sprint Canada

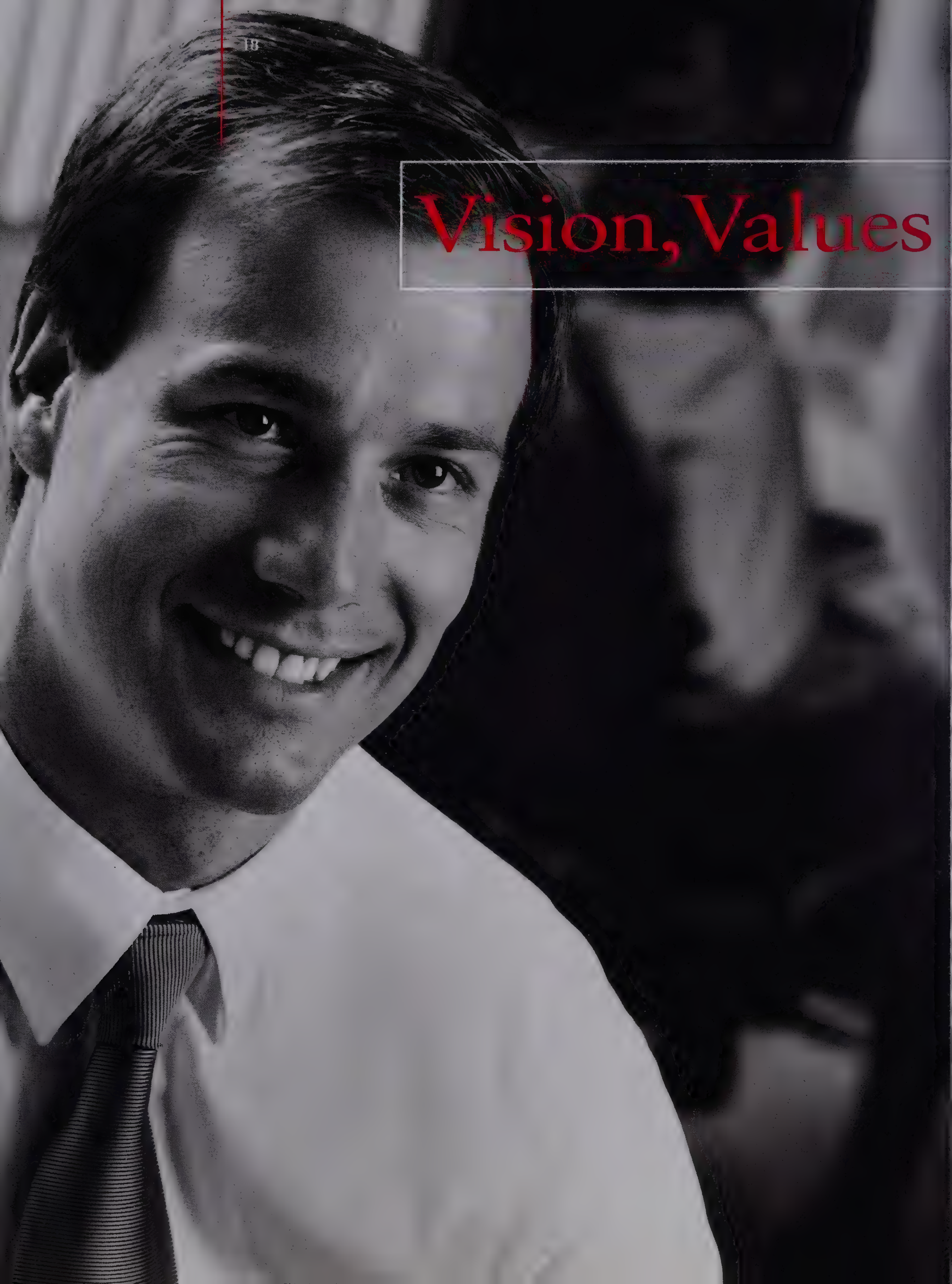
As the operating company, Sprint Canada is responsible for technology and network management, the development of products and services, sales and marketing, and customer relations. President and chief operating officer Phil Bates, who joined the Company in May 1990, leads a 25-member senior management team that has an average of 15 years experience in telecommunications and related fields. Sprint Canada employs approximately 2,000 people.

Marketing, Sales and Service

Approximately three-quarters of Sprint Canada's staff work in marketing, sales and customer service, reflecting the Company's market-driven and customer-focused character. Heading this organization is Dave Hagan, executive vice president of marketing, sales and service, who joined Sprint Canada in 1994. Sprint Canada is organized in two customer service groups – Enterprise, led by Ken Wilson, which provides voice and data solutions for the complex requirements of businesses and governments; and Residential/SOHO, led by Michael Sharp, which delivers long distance and Internet services to residential customers and the small office/home office market. The two groups share functions such as advertising, market research, new product development and activation. Senior sales executives are located in every region across Canada and deal directly with customers.

Operations

Highly qualified executives are responsible for the technical aspects of our business – Bruce Montaigue (information technology operations), Aaron Tai (information technology development), Jim Grainger (network engineering), and Jon Macdonald (network analysis and planning). Each executive is backed by a team of technical specialists.

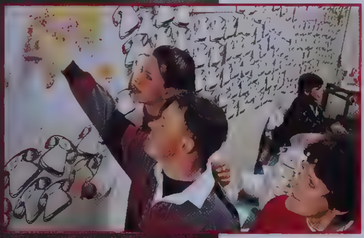


Vision, Values

and People

Think of telecommunications and you think of technology. But, while Sprint Canada operates one of the largest and most reliable telecommunications networks in Canada, our business is about people. We currently employ about 2,000 people and serve 1.2 million residential and business customers. Our company very much has a human face. And it is the human face we look for, not technological images.

Some of this focus is captured in Sprint Canada's corporate vision:



- *We are a fast growing Canadian company offering high quality telecommunications services that deliver savings and simplicity to our customers throughout Canada.*
- *Our strategies will always be market-driven and our actions customer-focused.*
- *For our employees and customers, we will continually strive to be the best company to work for and buy from.*

We have four cornerstone values that define what it is like to work at Sprint Canada and what's important to the company and our customers:

- *Teamwork: We will work together, often across functions, trusting and respecting each other to achieve shared goals.*
- *Responsiveness: We will take ownership to promptly deliver quality services and solutions to customer needs.*
- *Balance: We will respect each individual's need to balance hard work and responsibility to the company with personal and family commitments.*
- *Innovation: We will encourage all employees to develop and implement innovative solutions to exceed customer expectations.*

Trying to live by these values is integral to Sprint Canada's corporate culture. All new employees go through an orientation program on our vision and values, and we stay in touch with employee attitudes through focus groups.We believe it is essential to state our values – and for all of us to strive to live them.

We are in the second year of a four-year commitment as a national sponsor of the Special Olympics. Sprint Canada employees were volunteers at the Special Olympics World Winter Games held for one week in Ontario in February 1997. We set up call-home centres in Toronto and Collingwood and encouraged the Olympians to call home at our expense. The call-home centres were a first for the Special Olympics and will likely be emulated at future Games by sponsors in other host countries. Our sponsorship includes support of eight provincial groups, the Canadian organization and the Sports Celebrities Festival.

Board Members

Hon. Alan R. Abraham, C.M.,C.D.: Former Lieutenant-Governor of Nova Scotia. Former president and chief executive officer of Maritime Warehousing & Transfer Co. Ltd., Halifax.

Jeffery A. Barnes: University of Toronto LL.B. Partner in Fraser & Beatty, Toronto. Practised law since 1976 in the securities and mergers and acquisitions areas. Former chairman of the board, Fraser & Beatty.

Robert Crockford: University of Western Ontario business graduate. President of Valley City Manufacturing Company, Dundas, Ontario since 1978. Founding director of Call-Net.

Juri Koor: University of Toronto industrial engineer. Held management positions in computer, manufacturing and financial services industries in Canada, Europe and United States. Joined Call-Net as president and CEO in 1991 and subsequently became chairman.

Patrick Smith: MSC from University of Manitoba. Director of computer centre and lecturer in computer science at University of Manitoba for 13 years. Joined SHL Systemhouse as chief technology officer in 1983. Joined Sprint Corp. in 1995. Currently vice president, systems integration and technology planning.

Peter Tanaka: B.Comm (Honours) from University of British Columbia, member of Dean's Advisory Council at University of Toronto, Faculty of Management. Worked as general manager, strategic investments, with the Ontario Ministry of Economic Development Trade & Technology prior to becoming a partner of Strathshore Financial Inc.

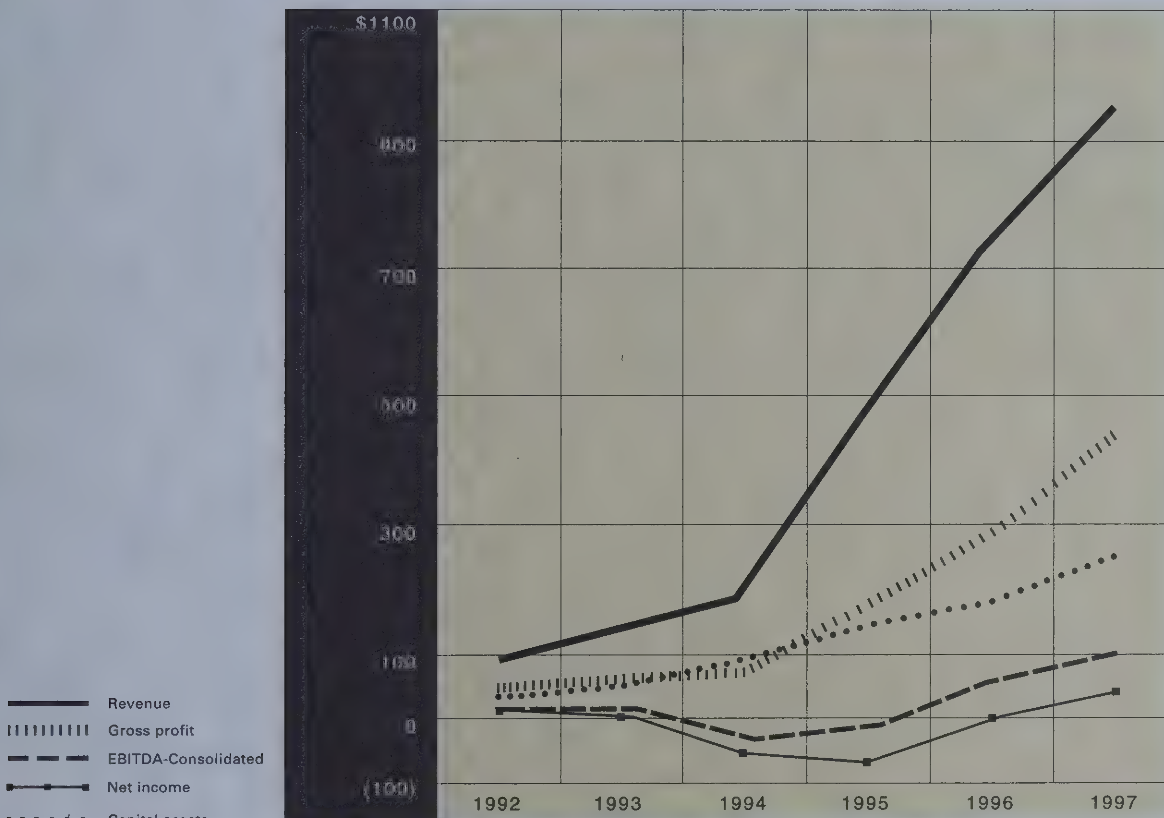
Lawrence G. Tapp: Dean of the Richard Ivey School of Business, University of Western Ontario. Long career in private sector. Served as president of the packaging company Lawson Mardon Group and led its leveraged buyout.

Thomas E. Weigman: Lehigh University civil engineer and MBA graduate from University of Pennsylvania. Extensive marketing and sales experience with several companies. Joined Sprint Corp. in 1991 in long distance marketing. President of consumer services group at Sprint Corp.

Lauren E. Wright: Harvard Business School MBA. Held management positions in corporate finance and treasury, investor relations, and materials and service management with Sprint Corp. Currently vice president and general manager of Sprint Corp.'s long distance international operations.

Management's Discussion and Analysis

Historical operating performance *($ millions)*



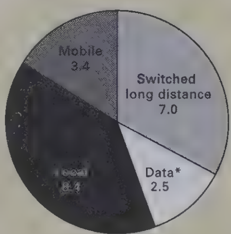
($ millions)

	1992	1993	1994	1995	1996	1997
Revenue	82.8	133.9	176.3	457.5	712.6	920.9
Gross Profit	31.2	45.1	51.2	155.5	267.9	415.2
EBITDA – Core*	8.4	8.8	(31.1)	(15.7)	43.1	126.4
EBITDA – Consolidated	8.4	8.8	(31.1)	(15.7)	43.1	90.5
Net Income (Loss)	1.7	(3.1)	(55.5)	(64.7)	(7.1)	16.3
Capital Assets	24.3	44.5	85.3	132.0	169.7	242.6

Revenue/ Capital Assets	3.4	3.0	2.1	3.5	4.2	3.8
Gross Margin (% of revenue)	37.7%	33.7%	29.0%	34.0%	37.6%	45.1%
Operating Costs (% of revenue)	27.5%	27.1%	46.7%	37.4%	31.5%	35.3%
Billed Minutes (in millions)	240	430	720	1,650	2,811	4,065

*Core excludes investments in local and online services as well as royalties.

Estimated market size *($ billions)*



1997

* Including online services

The following discussion and analysis explains trends in the Company's financial condition and results of operations for the year ended December 31, 1997 compared with previous years, and is intended to help shareholders and other readers understand the dynamics of the Company's business and the key factors underlying its financial results. Certain statements in the Annual Report and in this management's discussion and analysis constitute forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties, and other factors which may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following: general economic and business conditions, demographic changes, regulation, major technology changes, timing of product introductions, competition, and the ability of the Company to attract and retain key employees. The consolidated financial statements, notes to the consolidated financial statements and supplementary information constitute an integral part of and should be read in conjunction with this management's discussion and analysis.

Call-Net's strategy is to capitalize on opportunities in telecommunications arising from regulatory and technological changes.

As the barriers to long distance competition were removed between 1990 and 1994, we broadened our offering of services to business and residential customers across Canada. Today, our wholly owned subsidiary, Sprint Canada Inc., is the number one long distance alternative to the former monopoly telephone companies. Sprint Canada also provides Canadians with Internet access and plans to offer local telephony as soon as the remaining regulatory issues are resolved.

Call-Net owns 11 percent of Microcell Telecommunications Inc. Microcell is one of two new companies now providing digital wireless personal communications service, or PCS, across Canada. Microcell completed an initial public share offering in 1997, which diluted our equity position from 19 percent and removed Call-Net's contractual obligations to make further capital investments in Microcell. No capital investments were made in Microcell in 1997.

Call-Net's operating revenue currently derives solely from Sprint Canada.

CANADIAN TELECOMMUNICATIONS

Historically, nine telephone companies with provincial or regional monopolies have controlled Canada's telecommunications, while cellular telephony has been under a nationwide duopoly.

The $21 billion Canadian telecommunications market can be divided into competitive and non-competitive sectors. The competitive sector includes switched long distance (that is, voice and fax services) and data services as well as mobile wireless services. The non-competitive sector is primarily local telephony.

The competitive sector

Switched long distance competition began in 1987 when Call-Net resold enhanced services to small businesses. The CRTC approved simple resale in 1990 and facilities-based competition in 1992. Full competition commenced in July 1994 when equal access to the public telephone system was implemented. Competition created an initial influx of new entrants. Today, only three major alternative long distance carriers compete nationally against an alliance of the telephone companies. Unlike the United States, where regional local telephone companies are expected to enter the long distance sector, Sprint Canada has achieved its results while competing against vertically integrated local telephone companies in all long distance markets.

The Stentor alliance still dominates the switched long distance sector with approximately a 65 percent market share. Sprint Canada leads the alternative suppliers ending 1997 with a 13 percent share and approximately 1.2 million residential and business customers.

The switched long distance market is expected to grow by approximately three percent annually to almost $7.5 billion in revenues by 2000.

The business data services segment consists of traditional low-speed analogue and X.25 service as well as high-speed digital services using private line, frame relay and Internet protocol. Historically, the Stentor companies and CN/CP Telecommunications (formerly Unitel Communications and currently AT&T Canada Long Distance Services) have provided data services. Today, however, the market is competitive with three national carriers providing data services in addition to the Stentor companies. Sprint Canada entered this market segment in 1994 by acquiring a data services firm.

The overall growth in business data services is projected at 18 percent annually to reach $3.5 billion by 2000. The low-speed analogue segment is in decline and growth in the high-speed segment is projected at 25 percent annually to reach $3.0 billion by 2000. We are making major investments to position Sprint Canada as a strong competitor in high-speed data services.

The consumer data market, containing Internet access and online services, is expected to grow by 21 percent annually to $600 million by 2000. This segment is currently crowded with many small service providers and substantial industry consolidation is anticipated. Sprint Canada introduced THE MOST™ online in September 1997 and attracted more than 37,000 residential and small business subscribers by year end.

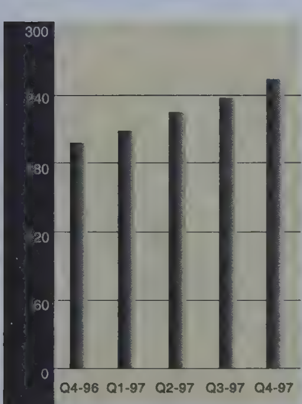
The duopoly mobile wireless sector is now more competitive with two new PCS companies, including Microcell, offering services. This sector is expected to expand by 15 percent annually and should generate $5 billion in revenues by 2000, offering opportunities for the bundling of mobile services with long distance and local services.

The non-competitive sector

The CRTC has established a framework for competition in local telephony. For effective competition to occur, however, subscribers must have the ability to keep their current telephone number when they switch local carriers. Number portability and other issues are expected to be resolved later in 1998. Alternative long distance suppliers, the cable companies and other companies are expected to offer local services. The local market is already large and is projected to grow by five to six percent annually to reach $10 billion by 2000.

Sprint Canada is currently preparing to offer local services once outstanding regulatory and technical issues are satisfactorily resolved.

Revenue *($ millions)*



FINANCIAL RESULTS

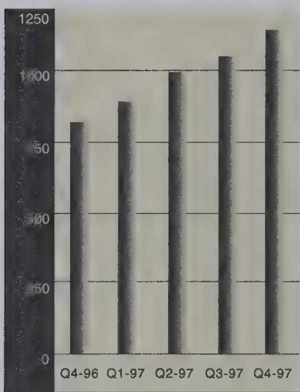
Revenue gains in 1997 far outpaced higher carrier charges and operating expenses, producing higher gross margin, a doubling of EBITDA, and net income compared with a net loss in 1996. Revenue in 1997 derived from the core services of voice and fax long distance as well as business data services.

Revenue and traffic volume

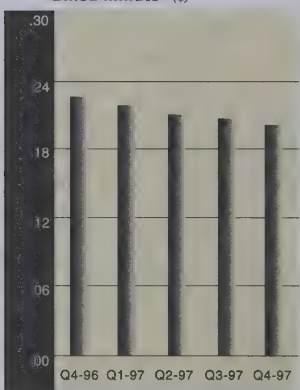
Revenue totalled $920.9 million in 1997, a 29 percent increase over the $712.6 million reported in 1996.

The volume of switched voice and data traffic carried on Sprint Canada's national network esca-

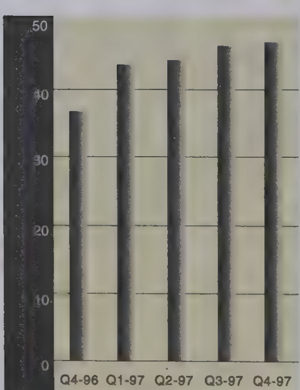
Billed minutes *(millions)*



Switched revenue per Billed Minute *($)*



Gross margin *(% of revenue)*



lated to 4.1 billion billed minutes in 1997, a 45 percent expansion over 1996. The faster growth in billed minutes compared with revenue reflected intensified price competition as well as changes in traffic mix.

All revenue growth in 1997 and 1996 was internally generated through focused sales and marketing programs. The continued expansion of Sprint Canada's large residential customer base was augmented by the addition of several major corporations, including banks and national retailers. We see this trend accelerating as the business community becomes familiar with Sprint Canada's enhanced and highly competitive data services.

The launch of THE MOST™ online to residential and small business customers in September 1997 did not significantly impact the year's revenue. Canadians are increasingly turning to the Internet as a means of communicating with each other and accessing information. Internet revenue should become more apparent in our future financial performance.

Revenue increased in every quarter during 1997 with the fourth quarter revenue 29 percent higher than the corresponding quarter in 1996. On an annualized basis, revenue exceeded $1 billion for the first time in the fourth quarter of 1997, putting us ahead of the goal set in 1993 to be a $1 billion company by 1998.

Revenue per minute averaged 22.6 cents for the year, compared with 25.4 cents in 1996. The decline reflected various factors, including changes in product and traffic mix and price reductions for some services.

Carrier charges and gross margin

While revenue grew by 29 percent, carrier charges increased by less than 14 percent to $505.7 million, producing a gross profit of $415.2 million – a 55 percent improvement over 1996. As a percentage of revenue, gross margin improved to 45 percent from 38 percent a year earlier.

A key factor influencing this performance was the sharp decline in contribution rates, which fell faster than prices in 1997. Contribution is paid to the Stentor companies to subsidize local telephone rates. Because of local rate increases by the Stentor companies, the subsidies required to support local services were reduced by 50 percent last year. This followed a 25 percent decline in contribution rates in 1996.

Base contribution rates charged to the Company will be reduced again following local rate increases by the Stentor companies effective January 1, 1998. However, net contribution charges per circuit for cross-border circuits will increase effective July 1, 1998, largely offsetting the reduction in base rates.

A second important reason for lower carrier charges and the substantially improved gross margin in 1997 was much tighter cost management of Sprint Canada's telecommunications network. Also contributing to the improvement were savings in leasing costs from further deployment of Company-owned fibre routes and lower toll costs on a per minute basis, reflecting a more competitive environment for terminating calls off the network.

Operating costs

On a consolidated basis, total operating costs rose by 44 percent in 1997 to $324.7 million, exceeding the growth in revenue. As a percentage of revenue, total operating costs averaged 35 percent, compared with 32 percent in 1996 and 37 percent in 1995.

Consolidated operating costs consist of three components – the costs of offering core services, expenditures on the development of new services, and the payment of royalties.

Operating costs *(% of revenue)*

In 1997, the Company spent $20.9 million on the development and launch of THE MOST™ online and on preparing entry into local services.

As a result of the Company being profitable in 1997, we were required for the first time to make royalty payments of $15 million to Sprint Communications Company L.P.

Excluding these charges, the operating costs for core services were $288.8 million, or 31 percent of revenue, a slight reduction from 1996. Consistent with prior years, the Company did not capitalize sales and marketing costs.

The Company is committed to maintaining an optimal relationship between operating costs and operating revenue. One measure of the emphasis on efficiency is the cost of core services per billed minute, which declined to 7.1 cents in 1997 from 8.0 cents in 1996.

Another important measure of efficiency is revenue per employee. At the 1997 year end, annualized revenue per employee was approximately $506,000, compared with $550,000 a year earlier. The number of employees has continued to expand rapidly in response to customer demands and to support the development and launch of new services. At the 1997 year end, the Company employed approximately 2,000 people. Employment is expected to grow to 4,000 people over the next three or four years as Sprint Canada expands core services and offers new services. To accommodate higher staffing levels and to ensure operating efficiencies, we plan to consolidate Toronto area staff in a new multi-building Sprint Canada head office complex over the next few years.

EBITDA

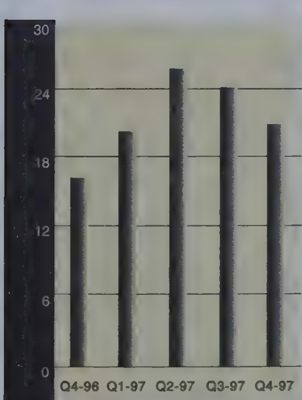
Earnings before interest, taxes, depreciation and amortization ("EBITDA") were $90.5 million in 1997, versus $43.1 million in 1996. When the costs of developing new services and the payment of royalties are excluded, EBITDA from core services was $126.4 million, or 14 percent of revenue, compared with the $43.1 million, or 6 percent of revenue, for 1996.

These results confirm that Sprint Canada has substantially strengthened its underlying profitability and is well positioned to continue its expansion in core services as well as into new residential and small business online services and local services.

The chart entitled "Historical operating performance", on page 21, illustrates the recent pattern in Sprint Canada's underlying profitability. With the arrival of full competition on July 1, 1994, the decision was made to invest heavily during the second half of 1994 and throughout 1995 in building the long distance business to create critical mass and gain market share. These expenditures involved infrastructure for the national telecommunications network, information management systems, new products, customer service, order fulfillment services and human resources. Positive EBITDA was not anticipated until the fourth quarter of 1995. That target was achieved.

A similar pattern of growth may recur when Sprint Canada expands into local services, although unlike the 1994-1995 growth in long distance, the Company will begin with substantial technological and customer service assets, established sales and marketing channels, and a large customer base. EBITDA growth from core services will be diluted on a consolidated basis by early-stage losses on local and online services.

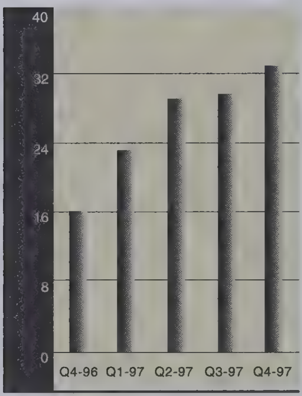
EBITDA - Consolidated *($ millions)*



Depreciation and amortization

Depreciation and amortization increased by 40 percent, or $13.4 million to $46.6 million, reflecting a $104.3 million increase in capital assets to $326.2 million during the year.

EBITDA-Core *($ millions)*



Interest expense

Interest expense was $40.0 million in 1997, compared with $26.1 million in 1996. The increase was the result of the proceeds of new financing completed in August 1997 consisting of $175.0 million of U.S. dollar denominated Senior Discount Notes and $100.0 million of Canadian dollar denominated Senior Notes, both due in 2007.

The Company maintains a policy of investing surplus cash in highly liquid, secure money market instruments. At December 31, 1997, the investment portfolio totalled $558.4 million, compared with $170.1 million a year earlier. Interest income for the year was $12.4 million versus $9.1 million in 1996.

Net income

Call-Net reported net income of $16.3 million, or 31 cents per share, compared with a loss of $7.1 million, or 14 cents per share, in 1996. As previously noted, the 1997 net income reflected strong revenue growth, reduced carrier costs, and tight control of selling, general and administrative expenses in relation to revenue.

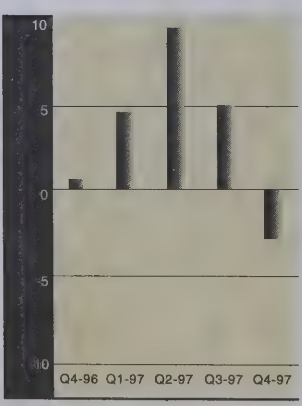
In view of the heavy capital and operating expenditures in the second half of 1994 and throughout 1995, the Company did not anticipate achieving a quarter of net income until sometime in 1997. Instead, we recorded two quarters of modest net income in the latter half of 1996. Net income remained positive in the first three quarters of 1997 and turned negative in the fourth quarter when $10 million of the $15 million royalty payable to Sprint Communications Company L.P. was deducted. The other $5 million was deducted from third quarter net income.

Liquidity and capital resources

Call-Net is well capitalized with more than $558.4 million of cash and short-term investments, free cash flow (defined as net cash flow excluding Financing Activities) from the long distance business, and unused credit facilities. Consequently, the Company is well positioned to fund its future growth.

Capitalization

Net income (loss) *($ millions)*



In August 1997, the Company successfully issued high-yield debt that produced $332.7 million in net proceeds. The proceeds of the offering consisted of $175.0 million of U.S. dollar denominated Senior Discount Notes and $100.0 million of Canadian dollar denominated Senior Notes, both maturing on August 15, 2007. No cash interest is payable on the U.S. notes in the first five years. The Company has hedged a significant portion of its foreign currency exposure through cross-currency swaps.

Also in 1997, the Company raised $21.3 million from the exercise of stock options by senior management and from Sprint U.S. acquiring treasury shares to maintain its 25 percent non-voting interest in Call-Net.

Capital expenditures

Capital expenditures totalled $104.3 million, compared with $59.7 million in 1996.

The level of investment in core services was much the same as 1996 at $60.7 million for upgrading information management systems, expanding the Company-owned fibre network and additional office space and leasehold improvements.

Cash flow from operations *($ millions)*

Approximately $23.6 million related to the development and launch of online services and the development of local services.

Another $20.0 million was used to purchase a 50-acre site and buildings near the current Toronto head office. We plan to develop approximately one million square feet of space over the next five to 10 years, with the first building scheduled for occupancy in late 1999. The site will house general purpose office space, a network control centre, training facilities, a call centre and other special facilities. Besides improving employee productivity and efficiency, this investment should avoid escalating rental rates that drain earnings and should enhance long-term shareholder value.

Net capital assets grew by $72.9 million to total $242.6 million at year end. Assets include major switching equipment in Vancouver, Calgary, Montreal and Toronto, company-owned fibre optic circuits, a national network data management centre in Vancouver, a national network voice management centre in Toronto, two customer service centres, information management systems, and 18 offices across Canada.

Although revenue expanded by 29 percent in 1997, net capital assets to produce that revenue rose by only 17 percent after excluding the costs of developing new services and acquiring the head office site. This showed improved capital efficiency in core services. Every $100 of core capital assets supported revenue of $460 versus $420 in 1996 and $350 in 1995.

Cash flow

Call-Net produced free cash flow from core services of approximately $100 million in 1997. Consolidated free cash flow, after expenditures on the development and launch of new services, was $34.4 million. This was the first time the Company has generated free cash flow.

Cash flow from operations was $99.4 million, compared with $51.6 million in 1996. After working capital changes, cash flow was $138.7 million versus $50.6 million in 1996.

Year-end position

Call-Net concluded 1997 with $558.4 million of cash and short-term investments. These funds, combined with the free cash flow from core services, will help to finance our entry into local services and other sectors.

Long-term debt of $564.9 million and shareholders' equity of $290.6 million resulted in a debt-to-equity ratio of 1.94:1 versus 0.74:1 at the end of 1996. Net debt (long-term debt less cash on hand) was $6.5 million at the 1997 year end.

Call-Net's credit facility of $75 million with its principal bank was undrawn as at December 31, 1997.

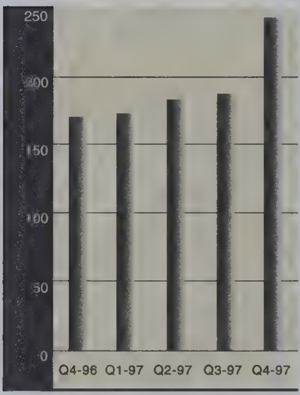
Annualized revenue/ Capital assets

Investment

We own 11 percent of Microcell Telecommunications Inc., a Montreal-based company that was awarded a federal licence in December 1995 to develop a digital wireless PCS telephone service across Canada. Microcell continued to build out its network in 1997 and currently offers PCS service in major urban centres across Canada. In its first year, it obtained approximately 65,000 subscribers.

Following a successful Microcell initial public offering of shares in 1997, and coupled with the exercise of management and shareholder stock options, Call-Net's ownership was diluted to 11 percent from 19 percent. The IPO released Call-Net from a contractual obligation to invest up to an additional $19.0 million in Microcell by the end of 1998. No investments were made in 1997. In 1996,

Capital assets *($ millions)*



we invested $7.8 million, bringing our total investment to $18.1 million. Our Microcell equity was valued at $56.9 million based on the share price at December 31, 1997.

Risks and Risk Management

Call-Net faces several competitive, regulatory, operating and financial uncertainties. Operating and financial strategies, and the deployment of resources, are designed to offset these potential risks.

COMPETITIVE RISKS:

There are currently four major long distance carriers (three alternative suppliers and the telephone companies) in each regional or provincial market. Our largest competitors are the vertically integrated telephone companies that form the Stentor group. These companies continue to dominate long distance and monopolize local services.

We manage competitive risks in long distance – and will do so in local and other areas – by being well funded with a conservative balance sheet; by maintaining our operating and capital costs well below major competitors; by taking a proactive stance in regulatory fora; and by offering products and services with a strong value proposition for customers.

Now that the CRTC has set the framework for local competition, we are evaluating the remaining unresolved issues, including number portability, and the risks we will incur when we enter the local market in 1999.

LEGAL AND REGULATORY RISKS:

The ownership and management of Call-Net and Sprint Canada are subject to the provisions of the Telecommunications Act (Canada). The Act, and the regulations made under the Act, restrict foreign ownership of a telecommunications carrier to 20 percent, and indirect ownership through a holding company to 33.3 percent. A carrier cannot be otherwise controlled by a foreign entity. Call-Net and Sprint Canada are currently in compliance with these ownership and control requirements.

The CRTC regulates local telephone rates and certain long distance rates of the Stentor companies, which directly and indirectly affects the rates of Call-Net's existing and proposed operations. The CRTC also regulates the contribution charges that Sprint Canada must pay so that it can compete in the long distance market. Contribution payments subsidize local services. We propose to enter local services, which will also be subject to federal regulation.

During 1997, the CRTC issued rulings on the practice of switched hubbing of certain traffic destined for overseas markets. Sprint Canada is among the alternative carriers that employed this practice. The details surrounding this issue are explained in note 12 to the consolidated financial statements. An adverse ruling by the CRTC, the courts or Canada's federal cabinet could materially affect Call-Net's earnings in a future year.

YEAR 2000 READINESS

We have completed a review of systems, suppliers, processes and procedures to assess our vulnerability to Year 2000 issues. The review identified a number of areas for further investigation and/or for remediation. Our target is to ensure by June 30, 1999 that service to customers will be uninterrupted by Year 2000 problems that are within our control, with a view to conducting "business as usual" into 2000. The balance of 1999 is a contingency period to deal with unforeseen events. As with all telecommunications companies we are dependent on a number of services and business processes that are not under our control. For such processes, we will attempt to achieve correct data utilization and uninterrupted service by December 31, 1999 to the fullest extent practical. To this end, Call-Net is an

active participant in the National Telecommunications Information Forum (a forum of all major telecommunication companies in Canada) which is working on Year 2000 issues that are common to all Canadian carriers. We have interviewed and will continue to interview manufacturers and vendors of equipment, processes and services used in supplying our services to obtain a complete understanding of the Year 2000 status of what we purchase. We have also planned to implement a support strategy by December 31, 1999 to deal with unforeseen contingencies that occur on or after January 1, 2000 and to ensure ongoing compliance. We have not yet identified any reason to believe that our target will not be met.

While most of the systems employed by Call-Net and Sprint Canada are relatively new, having been developed since 1992, we are not in a position at this time to quantify the full remedial costs of our Year 2000 readiness programme. Costs could, however, be material and will be accounted for in accordance with our stated accounting policies.

FINANCIAL RISKS:

Call-Net's core services, taken as a whole, are now self-financing, generating free cash flow of approximately $100 million in 1997. During the next few years Call-Net will be investing in areas, such as online services and local services, where the returns are uncertain and in which it could take several years for the new activities to be self-financing. Currently, Call-Net has sufficient financial resources to fund its expansion plan. In addition to free cash flow from core services, the Company has cash reserves of $558.4 million and an unused $75 million bank credit line.

The balance sheet is managed conservatively, with a debt to equity ratio of 1.94:1 at the end of 1997. Some risk is attached to the two issues of U.S. dollar denominated Senior Discount Notes, although the majority of the foreign currency exposure is hedged. This is discussed in note 15b to the consolidated financial statements.

Future Expectations

The management of Call-Net remains focused on achieving superior long-term shareholder returns through the growth of its core services and by providing other telecommunications services to our expanding customer base.

At the 1997 year end, our annualized revenue from core services exceeded $1 billion. We anticipate continued strong growth from core services, including THE MOST™ online. In 1999, we expect to expand our telecommunications products into local services. This expansion will be supported by current advantages:

- a national presence in all market segments;
- a loyal customer base of 1.13 million households and more than 54,000 business locations;
- a low-cost service structure and a low level of embedded capital;
- a strong balance sheet;
- the ability to leverage existing investments in network and network management, customer lists, billing systems, sales distribution channels, customer service call centres and other assets; and
- a market-driven, customer-focused work force.

Management's Report

Management is responsible for the preparation and presentation of the consolidated financial statements and all other information in the annual report. This responsibility includes the selection of appropriate accounting methods, in addition to making the judgements and estimates necessary to prepare financial statements in accordance with generally accepted accounting principles. It also includes ensuring that the other financial information presented elsewhere in the annual report is consistent with the financial statements.

To safeguard assets and to provide reasonable assurance that relevant and reliable financial information is being produced, management maintains a system of internal controls. The financial statements have been audited by the independent shareholders' auditors, Ernst & Young, whose report follows.

The Board of Directors, acting through an Audit Committee, is responsible for determining that management fulfills its responsibilities in the preparation of financial statements and the financial control of operations. The Board of Directors recommends the independent auditors for appointment by the shareholders. The Audit Committee meets regularly with financial management and the independent auditors to discuss internal controls, auditing matters and financial reporting issues. The independent auditors have unrestricted access to the Audit Committee. The Audit Committee reviewed the consolidated financial statements and management's discussion and analysis prior to the Board approving them for inclusion in the annual report.

Juri Koor

Juri Koor President and Chief Executive Officer

Jim Hardy Vice President and Chief Financial Officer

Auditors' Report

To the Shareholders of
Call-Net Enterprises Inc.

We have audited the consolidated balance sheets of **Call-Net Enterprises Inc.** as at December 31, 1997 and 1996 and the consolidated statements of operations and deficit and cash flows for each of the years in the three-year period ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1997 and 1996 and the results of its operations and the changes in its financial position for each of the years in the three-year period ended December 31, 1997 in accordance with accounting principles generally accepted in Canada.

Ernst & Young

Toronto, Canada,
February 12, 1998.

Ernst & Young Chartered Accountants

Consolidated Balance Sheets

As at December 31 (millions of Canadian dollars)	**1997**	1996
ASSETS		
Cash and short-term investments	**558.4**	170.1
Accounts receivable	**141.9**	119.7
Total current assets	**700.3**	289.8
Capital assets [note 3]	**242.6**	169.7
Investment [note 4]	**18.1**	18.1
Other assets [note 5]	**92.5**	97.9
Total assets	**1,053.5**	575.5
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts payable and accrued liabilities	**198.0**	136.5
Total current liabilities	**198.0**	136.5
Long-term debt [note 7]	**564.9**	186.0
Contingencies [note 12]		
Shareholders' equity		
Capital stock [note 8]		
Common Shares, unlimited authorized	**124.8**	122.8
Class B Non-Voting Shares, unlimited authorized	**151.3**	142.9
Class C Non-Voting Shares, unlimited authorized	**128.4**	117.5
Deficit	**(113.9)**	(130.2)
Total shareholders' equity	**290.6**	253.0
Total liabilities and shareholders' equity	**1,053.5**	575.5

See accompanying notes

On behalf of the Board:

Robert Crockford
Director

Alan R. Abraham
Director

Consolidated Statements of Operations and Deficit

Years ended December 31 (millions of Canadian dollars, except per share amounts)	**1997**	1996	1995
Revenues	**920.9**	712.6	457.5
Carrier charges	**505.7**	444.7	302.0
Gross profit	**415.2**	267.9	155.5
Operating costs	**324.7**	224.8	171.2
Earnings (loss) before interest, taxes, depreciation and amortization	**90.5**	43.1	(15.7)
Depreciation and amortization	**(46.6)**	(33.2)	(28.7)
Operating income (loss)	**43.9**	9.9	(44.4)
Interest on long-term debt	**(40.0)**	(26.1)	(27.4)
Interest and investment income	**12.4**	9.1	7.1
Net income (loss) for the year	**16.3**	(7.1)	(64.7)
Deficit, beginning of year	**(130.2)**	(123.1)	(58.4)
Deficit, end of year	**(113.9)**	(130.2)	(123.1)
Earnings (loss) per share [note 14]	**0.31**	(0.14)	(1.58)

See accompanying notes

Consolidated Statements of Cash Flows

Years ended December 31 (millions of Canadian dollars)	**1997**	1996	1995
OPERATING ACTIVITIES			
Net income (loss) for the year	**16.3**	(7.1)	(64.7)
Add operating items not requiring cash			
Depreciation and amortization	**46.6**	33.2	28.7
Interest on long-term debt	**36.5**	25.5	21.8
Loss on write-down of investment	**—**	—	0.8
Cash flow from operations before changes in non-cash working capital	**99.4**	51.6	(13.4)
Changes in non-cash working capital balances related to operations [note 10]	**39.3**	(1.0)	10.7
Cash provided by (used in) operating activities	**138.7**	50.6	(2.7)
INVESTING ACTIVITIES			
Acquisition of capital assets	**(104.3)**	(59.7)	(60.7)
Investment in Microcell Telecommunications Inc. [note 4]	**—**	(7.8)	(6.7)
Purchase of STN assets [note 2]	**—**	—	(19.0)
Other	**(0.1)**	0.3	(2.3)
Cash used in investing activities	**(104.4)**	(67.2)	(88.7)
FINANCING ACTIVITIES			
Issue of capital stock	**21.3**	10.6	109.9
Issue of long-term debt	**343.4**	—	3.5
Repayment of long-term debt	**—**	(3.5)	(0.1)
Debt issue costs	**(10.7)**	—	—
Cash provided by financing activities	**354.0**	7.1	113.3
Net increase (decrease) in cash during the year	**388.3**	(9.5)	21.9
Cash and short-term investments, beginning of year	**170.1**	179.6	157.7
Cash and short-term investments, end of year	**558.4**	170.1	179.6

See accompanying notes

Notes to Consolidated Financial Statements

December 31, 1997 (millions of Canadian dollars unless otherwise indicated)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada. These principles are also in conformity in all material respects with accounting principles generally accepted in the United States except as described in note 16 to the consolidated financial statements.

Principles of Consolidation

The consolidated financial statements include the accounts of Call-Net Enterprises Inc. and its principal operating subsidiaries, Sprint Canada Inc. and Call-Net Communications Inc., hereafter referred to as the "Company".

The Company owns approximately 11% [1996 – 19%] of the shares of Microcell Telecommunications Inc. ["Microcell"]. This investment is accounted for using the cost basis as the Company believes it does not exert significant influence over the affairs of Microcell.

Cash and Short-Term Investments

Short-term investments are recorded at cost, which approximates market value.

Capital Assets

Capital assets are recorded at cost. Depreciation on all assets commences when the assets are put into service. Depreciation and amortization are being provided based on the estimated useful lives of the assets on a straight-line basis as follows:

Buildings	40 years
Fibre optic cable and equipment	20 years
Multiplex and telephone switch equipment	10 years
Computer equipment and software	3 to 5 years
Furniture and fixtures	5 years
Leasehold improvements	term of the lease

Investments

Investments are recorded at cost. Any decline in the value of an investment that is other than a temporary decline results in the investment being written down with a charge against income.

Other Assets

Goodwill Goodwill, which represents the excess of the purchase price of the Company's interest in subsidiary companies over the fair value of the underlying net identifiable assets of the business acquired, is being amortized on a straight-line basis over 20 years.

Goodwill is assessed for future recoverability or impairment on an annual basis by estimating future net undiscounted cash flows and residual values. Any permanent impairment of the value of the unamortized portion of goodwill is written down with a charge against income.

Intangible Assets Technology and product rights, customer lists, trademarks and other intangible assets are recorded at cost.

Intangible assets are assessed for future recoverability or impairment on an annual basis by estimating future net undiscounted cash flows and residual values or by estimating replacement or appraised values. When the net carrying amount of an intangible asset exceeds the estimated net recoverable amount, the asset is written down with a charge against income.

Amortization of intangible assets is being recorded on a straight-line basis as follows:

Technology and product rights	10 years
Customer lists	10 years
Trademarks	10 years
Financing costs	term of the financing

Foreign Currency Monetary assets and liabilities in U.S. dollars are translated into Canadian dollars at the year-end rate of exchange and any gains or losses are reflected in income. Revenues and expenses are translated into Canadian dollars at the rate of exchange prevailing at the time of the transaction. Long-term debt denominated in U.S. dollars is translated into Canadian dollars at the year-end rate of exchange, or at the hedged rate of exchange if cross-currency interest rate swaps are in effect. Exchange gains or losses on translating this long-term debt are deferred and amortized on a straight line basis over the remaining life of the debt.

Derivative Financial Instruments The Company purchases services from U.S. based telephone carriers to terminate southbound traffic in the normal course of business. The Company has a foreign exchange hedge program including use of forward exchange contracts to manage the risk of this foreign currency denominated liability. Exchange gains or losses associated with this program are included in income as incurred.

The Company is party to long-term cross-currency interest rate swap agreements to manage risks associated with the Senior Discount Notes. Any net cost or benefit associated with such agreements is recorded on an accrual basis as an adjustment to interest expense. The costs associated with entering into the cross-currency interest rate swaps are being amortized over the term of the loan on a straight-line basis.

Income Taxes Income taxes are accounted for using the deferred tax allocation method under which the income tax provision is based on the income reported in the accounts.

Use of Estimates The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

2. ACQUISITIONS

1995 Transactions:

Smart Talk Network Inc. ["STN"] Effective August 4, 1995, the Company acquired certain assets of STN, a competitor that was in bankruptcy proceedings. The purchase price of $19.0 was paid in cash and has been allocated to the assets acquired based on their estimated fair market values as follows: working capital $9.0, customer lists and product rights $9.0, and capital assets $1.0. The acquisition has been accounted for using the purchase method, with the results of operations being included in these consolidated financial statements from the date of acquisition.

3. CAPITAL ASSETS

	1997			1996		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Multiplex and telephone switch equipment	149.8	31.8	118.0	98.0	20.6	77.4
Fibre optic cable and equipment	50.0	6.4	43.6	50.0	3.8	46.2
Computer equipment and software	65.0	29.4	35.6	40.2	17.5	22.7
Leasehold improvements	14.4	6.6	7.8	12.4	4.0	8.4
Furniture and fixtures	17.8	9.1	8.7	15.4	6.1	9.3
Buildings	14.5	0.3	14.2	5.4	0.2	5.2
Land	14.7	—	14.7	0.5	—	0.5
	326.2	83.6	242.6	221.9	52.2	169.7

4. INVESTMENT

	1997	1996
Investment in Microcell	18.1	18.1

During 1996, the Company had acquired 1,505,133 shares of Microcell for cash consideration of $7.8 and a commitment collateralized by the 1,505,133 shares issued to invest up to an additional $19.0 in Microcell upon request at any time until December 31, 1998 dependant upon contributed share capital being less than $200.0. During 1997, Microcell issued 20,534,000 shares pursuant to a public offering and the exercise of certain options which reduced the Company's interest to approximately 11% and increased Microcell's contributed share capital above $200.0, relieving the Company of its commitment to make an additional cash investment.

5. OTHER ASSETS

	1997			1996		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Technology and product rights	50.8	24.0	26.8	50.8	15.8	35.0
Customer lists	28.5	11.0	17.5	28.5	8.1	20.4
Trademarks	14.9	5.9	9.0	14.9	4.5	10.4
Goodwill	29.5	5.4	24.1	29.7	4.2	25.5
Financing costs	16.8	2.5	14.3	7.0	2.3	4.7
Other deferred costs	3.3	2.5	0.8	3.1	1.2	1.9
	143.8	51.3	92.5	134.0	36.1	97.9

6. OPERATING LINE OF CREDIT

At December 31, 1997, the Company had a credit facility from a syndicate of banks in the amount of $75.0. Amounts advanced under the credit facility are payable on demand and bear interest, at the Company's option, at a rate per annum equal to the bank prime rate plus 0.5% per annum or the Bankers' Acceptance rate plus 1.5% per annum. Borrowings under the facility are collateralized by charges over accounts receivable. At December 31, 1997 after giving effect to out of the money mark to market positions totalling $20.3 [1996 – $26.6], the Company could have drawn $54.7 under this facility [1996 – $48.4].

7. LONG-TERM DEBT

	Interest Rate	1997	1996
(a) Senior Discount Notes due 2004	13.25%	**213.7**	186.0
(b) Senior Discount Notes due 2007	9.27%	**251.2**	—
(c) Senior Notes due 2007	8.375%	**100.0**	—
		564.9	186.0

(a) Senior Discount Notes due 2004

The Company's U.S. $190.1 Senior Discount Notes ["the 2004 Discount Notes"] mature on December 1, 2004. The 2004 Discount Notes were issued in 1994 at a 47.405% discount to their principal amount, reflecting that no cash interest will be payable prior to December 1, 1999. Thereafter, cash interest will accrue at 13.25% per annum payable semi-annually on each of June 1 and December 1. The 2004 Discount Notes are redeemable in whole or in part at the option of the Company any time after December 1, 1999 at 106.625% of the principal amount, declining ratably to 100% of the principal amount on or after December 1, 2002 plus, in each case, interest accrued to the date of redemption.

(b) Senior Discount Notes due 2007

The Company's U.S. $275.0 Senior Discount Notes ["the 2007 Discount Notes"] mature on August 15, 2007. The 2007 Discount Notes were issued in 1997 at a 36.321% discount to their principal amount, reflecting that no cash interest will be payable prior to August 15, 2002. Thereafter, cash interest will accrue at 9.27% per annum payable semi-annually on each of August 15 and February 15. The 2007 Discount Notes are redeemable in whole or in part at the option of the Company any time after August 15, 2002 at 104.635% of the principal amount, declining ratably to 100% of the principal amount on or after August 15, 2004 plus, in each case, interest accrued to the date of redemption.

(c) Senior Notes due 2007

The Company's $100.0 Senior Notes ["the 2007 Notes"] mature on August 15, 2007. Interest is payable semi-annually on August 15 and February 15. The 2007 Notes are redeemable in whole or in part at the option of the Company any time after August 15, 2002 at 104.188% of the principal amount, declining ratably to 100% of the principal amount on or after August 15, 2004 plus, in each case, interest accrued to the date of redemption.

Each of the Company's senior secured notes and senior discount notes are unsecured obligations and rank *pari passu* in right of payment with all unsubordinated, unsecured indebtedness of the Company. The senior discount notes and the senior notes are governed by trust indentures which contain certain covenants, which, among other things, restrict the ability of the Company to incur additional indebtedness, incur liens, pay dividends or repurchase the Company's capital stock. During 1997, the Company obtained consents from holders of the 2004 Discount Notes to amend the indenture to this offering to substantially conform certain sections to the indenture for the 2007 Discount Notes and the 2007 Notes.

(d) Hedging Activities

The Company has entered into cross-currency interest rate swap agreements to reduce the Company's exposure to additional changes in the exchange rate of the U.S. dollar as compared to the Canadian dollar. The effect of these agreements is to convert the 2004 Discount Notes into a 14.26% Canadian dollar obligation and the 2007 Discount Notes into an 8.91% Canadian dollar obligation, in both cases calculated on a semi-annual bond equivalent basis.

The Company's obligations under the cross-currency interest rate swap agreements are collateralized by charges over accounts receivable.

8. CAPITAL STOCK

Certain restrictions on the payment of dividends exist as a result of the long-term debt issued in 1994 and 1997 [note 7].

Common Shares

The Company is authorized to issue an unlimited number of Common Shares. The holders of Common Shares are entitled to one vote for each share held at any meeting of shareholders of the Company. The Common Shares may be subject to constraints on transfer to ensure the Company's compliance with the foreign ownership provisions of the Telecommunications Act (Canada).

Preferred Shares

The Company is authorized to issue in series an unlimited number of Preferred Shares of which none were outstanding at December 31, 1997, 1996 and 1995. The Board will determine the rights and attributes when each series is issued.

Class B Non-Voting Shares

The Class B Non-Voting Shares were created in October 1993 when each Common Share then outstanding was converted into one Common Share and one Class B Non-Voting Share.

The Class B Non-Voting Shares rank *pari passu* with Common Shares and Class C Non-Voting Shares on a per share basis with respect to the payment of dividends and the right to participate in a distribution of assets of the Company on winding up, dissolution or otherwise. The holders of Class B Non-Voting Shares are not entitled to vote at any meeting of shareholders of the Company.

Class C Non-Voting Shares

The Class C Non-Voting Shares may not be held by parties other than Sprint Communications Company L.P. ["Sprint U.S."], its affiliates and permitted associates. The Class C Non-Voting Shares

rank *pari passu* with Common Shares and Class B Non-Voting Shares on a per share basis with respect to the payment of dividends and the right to participate in a distribution of assets of the Company on winding up, dissolution or otherwise. The holders of Class C Non-Voting Shares do not have an entitlement to vote at any meeting of shareholders of the Company. However, the holders of the Class C Non-Voting Shares are entitled to elect up to three directors of the Company as long as they maintain a significant equity interest in the Company.

Number of Shares	Common	Class B	Class C
Balance, December 31, 1994	9,412,646	20,263,243	9,712,073
Issued pursuant to options	10,700	304,541	—
Issued pursuant to underwriters' agreement	6,875,000	—	—
Issued to Sprint U.S.	605,000	—	2,420,000
Balance, December 31, 1995	16,903,346	20,567,784	12,132,073
Issued pursuant to options	472,800	1,050,691	—
Balance, December 31, 1996	17,376,146	21,618,475	12,132,073
Issued pursuant to options	203,100	888,925	—
Issued to Sprint U.S.	—	—	866,134
Balance, December 31, 1997	**17,579,246**	**22,507,400**	**12,998,207**

Dollars	Common	Class B	Class C
Balance, December 31, 1994	39.0	133.3	90.4
Issued pursuant to options	0.1	1.9	—
Issued pursuant to underwriters' agreement	74.3	—	—
Issued to Sprint U.S.	6.5	—	27.1
Balance, December 31, 1995	119.9	135.2	117.5
Issued pursuant to options	2.9	7.7	—
Balance, December 31, 1996	122.8	142.9	117.5
Issued pursuant to options	2.0	8.4	—
Issued to Sprint U.S.	—	—	10.9
Balance, December 31, 1997	**124.8**	**151.3**	**128.4**

1997 Transactions

On August 25, 1997, all of the Class C shares issued were purchased by Sprint U.S. pursuant to agreements which give Sprint U.S. the option to maintain a 25% equity interest in the Company. The agreements have an initial term of 10 years, beginning August 4, 1993, subject to automatic five year renewal periods if neither party elects to terminate the arrangement.

1995 Transactions

On November 8, 1995, pursuant to an agreement with a group of underwriters, the Company issued 7,480,000 Common Shares and 2,420,000 Class C Shares for aggregate net cash proceeds of $107.9. All of the Class C Shares and 605,000 of the Common Shares were purchased by Sprint U.S. pursuant to its option to maintain a 25% equity interest in the Company.

Stock Options

The outstanding stock options have expiry dates ranging from 1998 to 2005 with exercise prices ranging from $5.00 to $27.60. The following is a continuity of stock options outstanding:

	1997		1996	
	Common	**Class B**	Common	Class B
Balance, beginning of year	**889,659**	**2,689,897**	938,818	3,435,701
Granted during the year	**150,000**	**780,000**	423,641	767,541
Cancelled during the year	**—**	**(47,785)**	—	(462,654)
Exercised during the year	**(203,100)**	**(888,925)**	(472,800)	(1,050,691)
Balance, end of year	**836,559**	**2,533,187**	889,659	2,689,897
Weighted average exercise price per share on outstanding options at end of year	**$15.09**	**$14.57**	$11.83	$10.49

All options of the Company are granted pursuant to a Director and Employee Stock Option Plan from shares reserved for issuance upon the exercise of options granted under such Plan. The Plan reserves 1,890,333 Common Shares and 4,822,189 Class B Non-Voting Shares for issuance upon the exercise of options granted including shares reserved for issuance under options outstanding at the Plan initiation date, December 21, 1995. The number of shares reserved and available for issuance upon the exercise of future options granted is summarized below:

	1997		1996	
	Common	**Class B**	Common	Class B
Balance, beginning of year	**527,874**	**1,081,759**	951,515	1,386,646
Options granted during the year	**(150,000)**	**(780,000)**	(423,641)	(767,541)
Options cancelled during the year	**—**	**47,785**	—	462,654
Balance, end of year	**377,874**	**349,544**	527,874	1,081,759

9. INCOME TAXES

Income tax expense is nil due to the use of previously unrecognized losses.

At December 31, 1997, the Company had approximately $109.6 [1996 – $129.5] in losses available to reduce future years' income for income tax purposes, the tax effect of which has not been recorded in the accounts. Income tax losses will expire as follows:

2001	39.3
2002	60.5
2003	9.1
2004	4.6
	113.5
Less depreciation and other expenditures claimed for income tax purposes in excess of amounts recorded for accounting purposes	3.9
	109.6

10. CHANGES IN NON-CASH WORKING CAPITAL BALANCES RELATED TO OPERATIONS

	1997	1996	1995
Accounts receivable	**(22.2)**	(27.0)	(43.8)
Accounts payable and accrued liabilities	**61.5**	26.0	54.5
	39.3	(1.0)	10.7

11. FINANCIAL COMMITMENTS

The Company leases office space under operating leases that expire through 2006. The Company also has agreements with certain telephone companies that guarantee the long-term supply of network facilities at discounts to full rates.

The minimum payments under these agreements in aggregate and for each of the next five years and thereafter are as follows:

	Operating Leases	Long Distance Facilities
1998	5.7	37.9
1999	5.2	31.7
2000	5.0	28.3
2001	4.7	10.0
2002	4.4	—
Thereafter	16.5	—
	41.5	107.9

12. CONTINGENCIES

The Company and other alternative carriers currently engage in the practice of switched hubbing certain of their international traffic. In May 1997 the Canadian Radio-television and Telecommunications Commission ["CRTC"] ruled on a proceeding begun in August 1996 that such a practice was not in accordance with Canadian law and authorized Teleglobe Inc. ["Teleglobe"] to bill the Company for amounts it would otherwise have received had the Company not switch-hubbed certain of its traffic, less appropriate offsets. The Company and others appealed the CRTC's decision to the Federal Court of Appeal, which granted a stay of the CRTC's decision. Thereafter, on its own motion, the CRTC commenced a review of its own decision. In December 1997, the CRTC varied its initial decision and ruled that the practice of switched hubbing was permissible from May 5, 1997 onward, but reaffirmed its decision that the Company was not permitted to engage in switched hubbing from August 13, 1996 to May 5, 1997. The CRTC ordered the Company to provide details of its international traffic during this period which was not routed to Teleglobe. It will then conduct a proceeding to determine how much compensation, net of appropriate offsets, if any, that the Company should pay to Teleglobe. On February 2, 1998 Teleglobe appealed the CRTC decision permitting switched hubbing to the Governor in Council and also sought a stay of the implementation of the CRTC decision from the CRTC. Management believes that any future decision by the CRTC requiring the Company to compensate Teleglobe, which is upheld by the courts, could have a material adverse effect on the Company's operations and financial condition.

In the ordinary course of business activities, the Company may be contingently liable for litigation and claims with customers and suppliers. Management believes that adequate provisions have been recorded in the accounts where required. Although it is not possible to estimate the potential costs and losses, if any, management believes that the ultimate resolution of such contingencies will not have a material adverse effect on the consolidated financial position of the Company.

13. RELATED PARTY TRANSACTIONS

The Company has engaged in significant sales and purchases of goods and services with related parties for each of the three years ended December 31, 1997 in the normal course of operations under normal trade terms and conditions. At December 31, 1997 the net balance owing to these parties is $32.5 [1996 – $33.8] which included a royalty payable to Sprint U.S. for 1997.

14. EARNINGS (LOSS) PER SHARE

Earnings (loss) per share has been calculated on the basis of income (loss) less preferred share dividends, divided by the weighted average number of Common Shares, Class B Shares and Class C Shares outstanding during the year [note 8] [1997 – 51,841,565; 1996 – 50,622,652 and 1995 – 41,025,289]. The potential exercise of stock options has no current dilutive effect on earnings per share.

15. ADDITIONAL FINANCIAL INFORMATION

(a) Fair Values

The carrying amounts and estimated fair values of the Company's financial instruments as of December 31, 1997 and 1996 are as follows:

	1997		1996	
	Carrying Amount	**Estimated Fair Value**	Carrying Amount	Estimated Fair Value
Financial assets				
Cash and short-term investments	**558.4**	**558.4**	170.1	170.1
Accounts receivable	**141.9**	**141.9**	119.7	119.7
Investment in Microcell	**18.1**	**56.9**	18.1	18.1
Financial liabilities				
Accounts payable and accrued liabilities	**198.0**	**198.0**	136.5	136.5
Long-term debt	**564.9**	**618.0**	186.0	213.7
Off-balance sheet instruments				
Currency and interest rate agreements	**—**	**(6.8)**	—	(26.6)
Foreign currency contracts	**—**	**—**	—	0.1

The fair values of the Company's financial instruments have been determined as outlined below, however, the estimated fair values do not necessarily represent amounts that the Company could potentially realize or be obligated to pay in a current market exchange between arms length parties:

Cash and short-term investments and accounts receivable
The carrying value of the Company's cash and short-term investments and accounts receivable approximate fair value.

Investment in Microcell
At December 31, 1997, the fair value of the Company's investment in Microcell is based on the closing price on the Toronto Stock Exchange. Prior to its initial public offering in September 1997, the carrying value of this investment was used to approximate fair value as Microcell was a privately owned company for which there was no publicly quoted market price.

Accounts payable and accrued liabilities
The carrying value of the Company's accounts payable and accrued liabilities approximates fair value.

Long-term debt
The fair value of the Company's long-term debt is estimated based on current trading values.

Currency and interest rate agreements
The fair values of the cross-currency interest rate swap agreements and the interest rate swaps are based on values quoted by the counterparties to the agreements.

Foreign currency contracts
The fair value of foreign currency contracts is estimated as the replacement cost of the contracts at December 31, 1997 and 1996, taking into account the current foreign currency exchange rates.

[b] Other Disclosures

Credit risk
Short-term investments are placed exclusively with entities of high credit quality.

The Company's accounts receivable are not subject to any concentration of credit risk. The portfolio is diversified as to both geographic and industry concentrations.

Cross-currency interest rate swap agreements, interest rate swap agreements and foreign currency contracts involve the risk of dealing with counterparties and their ability to meet the terms of the contracts. In the event of nonperformance by the counterparties, the Company's accounting loss would be limited to the net amount that it would be entitled to receive under the terms of the applicable cross-currency interest rate swap agreement, interest rate swap agreement or foreign currency contract. However, the Company has a policy of only dealing with large, creditworthy financial institutions and, therefore, does not anticipate non-performance by any of the counterparties with which it has such agreements.

Currency and interest rate agreements
The Company has entered into cross-currency interest rate swap agreements to hedge its exposure to adverse movements in the relationship between the Canadian and U.S. dollars created under the Company's debt obligations. Of the U.S. $718.5 that will be paid in principal

and interest over the life of these instruments, the Company has hedged approximately 87.5% of the exposure for the entire term of the notes. Also, the Company uses interest rate swap agreements to hedge its exposure to adverse interest rate movements. At December 31, 1997, the Company had entered into interest rate swap agreements expiring December 1, 2004 with a notional amount outstanding of U.S. $202.7 [1996 – nil].

Foreign currency contracts

The Company purchases over-the-counter forward exchange contracts to hedge the purchase of U.S. dollars needed to settle U.S. dollar denominated trade obligations. At December 31, 1997, the Company had nothing outstanding under these contracts [1996 – U.S. $20.0].

16. RECONCILIATION TO ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED STATES

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada, which differ in certain respects from accounting principles generally accepted in the United States. The significant adjustments which are described below would be required in the consolidated financial statements to comply with U.S. GAAP.

Balance Sheets – Assets	1997	1996	1995
Canadian accounting principles			
Cash and short-term investments	**558.4**	170.1	179.6
United States accounting principles			
Cash and cash equivalents	**393.7**	110.4	77.3
Short-term investments available for sale	**164.7**	59.7	102.3

United States accounting principles classify cash and cash equivalents to exclude short-term investments which mature more than three months from the date of their acquisition.

Balance Sheets – Shareholders' Equity	1997	1996	1995
Capital Stock			
Canadian accounting principles	**404.5**	383.2	372.6
Share purchase incentives	**4.6**	4.6	4.6
Reduction in stated capital	**10.7**	10.7	10.7
United States accounting principles – Capital Stock	**419.8**	398.5	387.9
Deficit			
Canadian accounting principles	**(113.9)**	(130.2)	(123.1)
Share purchase incentives	**(4.6)**	(4.6)	(4.6)
Reduction in stated capital	**(10.7)**	(10.7)	(10.7)
United States accounting principles – Deficit	**(129.2)**	(145.5)	(138.4)

Generally accepted accounting principles in Canada allow for the reduction of the stated capital of outstanding shares with a corresponding offset to deficit. This reclassification which the Company made in 1992 is not permitted by United States accounting principles.

Statements of Operations

	1997	1996	1995
Net income (loss) based on Canadian accounting principles	**16.3**	(7.1)	(64.7)
Share purchase incentives	**—**	—	(2.8)
Net income (loss) based on United States accounting principles	**16.3**	(7.1)	(67.5)

Under Canadian accounting principles, stock options are accounted for at the date of exercise when the purchase is recorded as an increase to capital stock. For purposes of reconciliation to United States accounting principles, stock options granted to employees have been accounted for in accordance to APB 25, such that the excess of the market value of the shares over the exercise price is expensed and charged to income with a corresponding increase to capital stock over the vesting period.

Under United States accounting principles, Statement of Financial Accounting Standard No. 109 requires an asset and liability approach to financial accounting for income taxes. As at December 31, 1997, deferred tax asset net of a valuation allowance is nil [1996 – nil].

Under United States accounting principles, foreign exchange gains or losses from the translation of long-term monetary items are included in income as incurred. Under Canadian accounting principles, foreign exchange gains or losses on the translation of long-term monetary items are deferred and amortized. Any difference resulting from the application of this principle is not significant.

United States accounting principles do not recognize the disclosure of a subtotal of the amount of earnings before interest, taxes and depreciation and amortization in the statements of operations and deficit.

Statements of Cash Flows

	1997	1996	1995
Cash provided by (used in) operating activities	**138.7**	50.6	(2.7)
Cash used in investing activities	**(209.4)**	(24.6)	(114.1)
Cash provided by financing activities	**354.0**	7.1	113.3
Increase (decrease) in cash	**283.3**	33.1	(3.5)
Cash and cash equivalents, beginning of year	**110.4**	77.3	80.8
Cash and cash equivalents, end of year	**393.7**	110.4	77.3

United States accounting principles do not recognize the disclosure of a subtotal of the amount of funds provided by operations before changes in non-cash working capital items in the statements of cash flows.

United States accounting principles exclude non-cash transactions from the statements of cash flows, including acquisitions for share consideration and the conversion of liabilities to equity.

Additional Financial Information

Historical Review	1997	1996	1995	1994	1993	1992
Statement of Operations ($MM)						
Revenue	**921.0**	712.6	457.5	176.3	133.9	82.8
Gross Margin	**45.1%**	37.6%	34.0%	29.0%	33.7%	37.6%
EBITDA	**90.5**	43.1	(15.7)	(31.1)	8.8	8.4
Net Income (loss)	**16.3**	(7.1)	(64.7)	(55.4)	(3.1)	1.7
Earnings (loss) Per Share	**0.31**	(0.14)	(1.58)	(1.62)	(0.16)	0.18
Balance Sheet ($MM)						
Working Capital	**502.3**	155.6	165.1	144.4	94.0	27.9
Total Assets	**1,053.5**	575.5	524.8	400.0	254.8	65.6
Long-term Debt	**565.0**	188.3	168.1	140.9	10.8	11.7
Shareholders' Equity	**290.6**	253.0	249.5	204.3	222.9	43.2

1997 Quarterly Review	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
(Unaudited)	**1997**	1996	**1997**	1996	**1997**	1996	**1997**	1996
Statement of Operations ($MM)								
Revenue	**207.7**	161.5	**224.5**	171.6	**236.6**	183.9	**252.2**	195.6
Gross Margin	**43.3%**	39.7%	**44.0%**	38.6%	**46.3%**	35.9%	**46.4%**	36.6%
EBITDA	**20.2**	5.6	**25.7**	8.3	**24.0**	13.7	**20.6**	15.5
Net Income (loss)	**4.6**	(5.2)	**9.5**	(3.1)	**4.9**	0.7	**(2.8)**	0.5
Earnings (loss) Per Share	**0.09**	(0.10)	**0.18**	(0.06)	**0.09**	0.01	**(0.05)**	0.01
Balance Sheet ($MM)								
Working Capital	**168.4**	176.8	**178.2**	161.6	**541.1**	158.0	**502.3**	155.6
Total Assets	**615.2**	533.8	**619.6**	554.1	**1,014.5**	576.8	**1,053.5**	575.5
Long-term Debt	**192.5**	173.4	**199.3**	178.6	**553.0**	181.0	**565.0**	188.3
Shareholders' Equity	**259.2**	251.8	**269.4**	248.9	**289.8**	249.7	**290.6**	253.0

Stock Information	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
	Common	Class B	Common	Class B	Common	Class B	Common	Class B
1997 share price ($) and trading volume								
High	**21.50**	**22.00**	**24.25**	**23.00**	**28.75**	**28.75**	**29.75**	**29.75**
Low	**17.50**	**16.25**	**18.75**	**18.50**	**23.25**	**22.50**	**20.50**	**20.80**
Close	**21.50**	**22.00**	**23.25**	**22.50**	**27.35**	**27.25**	**22.45**	**22.45**
Volume (000s)	**2,215**	**2,796**	**2,926**	**6,078**	**2,475**	**3,509**	**3,011**	**2,527**
1996 share price ($) and trading volume								
High	15.50	15.25	16.25	16.25	16.35	16.75	18.50	17.00
Low	11.13	11.00	14.63	14.25	14.50	14.30	14.20	13.90
Close	15.13	15.00	16.20	16.10	15.00	14.50	18.00	16.75
Volume (000s)	3,616	4,478	2,655	3,028	2,094	2,392	2,520	4,605

Corporate Directory

BOARD OF DIRECTORS

Hon. Alan R. Abraham, C.M., C.D. ★◆▲
Halifax, Nova Scotia

Jeffery Barnes▲
Partner
Fraser & Beatty
Toronto, Ontario

Robert Crockford★◆▲
President
The Valley City Manufacturing
Company
Dundas, Ontario

Juri Koor
Chairman, President and
Chief Executive Officer
Call-Net Enterprises Inc.
Toronto, Ontario

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Systems Integration and
Technology Planning
Sprint Corp.
Kansas City, Missouri

Peter Y. Tanaka▲*
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Richard Ivey School of Business
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Kasten Chase Applied
Research Limited
Mississauga, Ontario

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President
Consumer Services Group
Sprint Corp.
Kansas City, Missouri

Lauren Wright*
Vice President and General Manager
Long Distance International Operations
Sprint Corp.
Kansas City, Missouri

OFFICERS

Juri Koor
Chairman, President and
Chief Executive Officer

Philip Bates
Senior Vice President

Robert Boron
Senior Vice President –
Corporate Services
Chief Counsel and Secretary

Jim Hardy
Vice President,
Corporate Development and
Chief Financial Officer

Mark Hemingway
Vice President, Law and
Assistant Secretary

Brock Robertson
Vice President and Treasurer

* As of January 29, 1998
** Resigned on January 29, 1998
★ Member of Audit Committee
◆ Member of Compensation and Human Resources Committee
▲ Member of Corporate Governance and Nominating Committee

Shareholder Information

CALL-NET ENTERPRISES INC.

Head Office
2235 Sheppard Avenue East
Atria II, Suite 1800
Toronto, Ontario
M2J 5G1

Transfer Agent and Registrar
Call-Net's transfer agent and registrar is CIBC Mellon Trust Company, Toronto, Montreal and Vancouver. Changes of address or inquiries about shares and dividends should be directed to the transfer agent.

Stock Exchange Listings
The Common Shares of Call-Net Enterprises Inc. are listed on the Montreal and Toronto stock exchanges under the stock symbol CN. The Class B Non-Voting Shares of Call-Net are listed on the Montreal and Toronto stock exchanges under the symbol CN.B, and on Nasdaq under the symbol CNEBF.

Annual Meeting
The annual meeting of shareholders will be held at 11:00 a.m. on Wednesday, May 13, 1998, at The Royal York Hotel in Toronto, Ontario.

Shareholder Inquiries
Shareholder inquiries should be directed to: Office of the Vice President and Chief Financial Officer, at (416) 718-6457

Ownership and Voting Rights of Call-Net Enterprises Inc.
Call-Net Enterprises Inc. is a Canadian company widely held by public shareholders. Through its wholly owned subsidiary, Sprint Canada Inc., the Company offers long distance and data telecommunications services to the public. As of February 28, 1998, the Company's shareholders' equity consisted of issued and outstanding Common Shares, Class B Non-Voting Shares and Class C Non-Voting Shares.

To ensure that the Company or its affiliates remain qualified to operate as a telecommunications common carrier pursuant to the Telecommunications Act (Canada), and the regulations made thereunder ("Telecommunictions Legislation"), the Articles of the Company impose certain restrictions on the issue and transfer of Common Shares of the Company to non-Canadians, as defined in the Telecommunications Legislation. The Board of Directors of the Company may establish, amend or repeal any procedure required to administer such restrictions on the issuance and transfer of the Common Shares of the Company.

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